

Message Text

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ACTION EUR-25

INFO OCT-01 ADP-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-09 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 SAL-01 OMB-01 DODE-00 PM-09 H-02 L-03

NSC-10 PA-03 PRS-01 SS-14 USIA-12 INT-08 CEA-02 SAJ-01

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INFO USMISSION BERLIN

AMEMBASSY BUCHAREST

AMEMBASSY BUDAPEST

AMEMBASSY MOSCOW

AMEMBASSY PRAGUE

AMEMBASSY SOFIA

USMISSION NATO

AMEMBASSY WARSAW

AMCONSUL ZAGREB

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E. O. 11652: N/A

TAGS: EMIN, EFIN, ETRD, ENRG, YO, UR

SUBJECT: NEW SOVIET ECONOMIC AGREEMENTS WITH SKOPLJE STEEL

WORKS IN MACEDONIA

1. SUMMARY. TANJUG DESPATCH DATELINED MOSCOW MARCH 11 REPORTS ON THREE SOVIET AGREEMENTS - ONE SIGNED, TWO UNDER NEGOTIATION,- WITH SKOPLJE STEEL WORKS IN MACEDONIA. THEY CONSTITUTE FIRST SIGNIFICANT SOVIET INVOLVEMENT WITH THIS ENTERPRISE WHICH WAS BUILT PRIMARILY WITH BRITISH AND AUSTRIAN EQUIPMENT, HAS BEEN PLAGUED BY TECHNICAL AND FINANCIAL DIFFICULTIES, AND IS MAJOR SOURCE OF EMPLOYMENT IN ONE OF POOREST OF YUGOSLAVIA'S REPUBLICS. END SUMMARY.

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2. IN \$26 MILLION BARTER AGREEMENT SIGNED IN MOSCOW ON MARCH 10, PROMSIREKSOPORT OF USSR WILL DELIVER SEMI- FINISHED STEEL FORMS TO SKOPLJE STEEL WORKS AND TEHNOMETAL OF SKIPLJE IN EXCHANGE FOR STEEL SHEETS. SECOND AGREEMENT, EXPECTED TO BE SIGNED SOON, CALLS FOR INDUSTRIAL COOPERATION BETWEEN SKOPLJE STEEL WORKS AND UNNAMED SOVIET STEEL INDUSTRY COMBINES FROM 1973 THROUGH 1975. VALUE OF DELIVERIES UNDER THIS AGREEMENT IS SET AT \$68 MILLION. THIRD AGREEMENT, SAID TO BE UNDER NEGOTIATION, INVOLVES DELIVERY OF SOVIET EQUIPMENT FOR SKOPLJE STEEL WORKS. NO PRECISE VALUE FIGURES ARE GIVEN OTHER THAN THAT EQUIPMENT WILL BE WORTH TENS OF MILLIONS OF DOLLARS.

3. PROBABLY ONE OF MOST UNECONOMIC INDUSTRIAL ENTERPRISES IN YUGOSLAVIA, SKIOPJE STEEL WORKS IS ESTIMATED TO HAVE OPERATED AT ONLY ONE- THIRD OF CAPACITY IN 1972 AND TO HAVE INCURRED LOSSES OF MORE THAN \$20 MILLION. ITS BASIC PRODUCTION DIFFICULTY STEMS FROM ATTEMPT OF MILL'S DESIGNERS TO OVERCOME PROBLEM OF YUGOSLAV SHORTAGE OF COKING COAL THROUGH USE OF ELECTRIC FURNACES. UNFORTUNATELY, POOR QUALITY OF AVAILABLE IRON ORE HAS REQUIRED EXCEPTIONALLY HIGH VOLUME OF ELECTRIC POWER WHICH HAS BEEN UNAVAILABLE FOR SUSTAINED PERIODS. LOSSES IN 1972 WERE ATTRIBUTED MAINLY TO ERRATIC POWER SUPPLY, BUT ALSO TO DIFFICULTIES IN USING MODERN BRITISH EQUIPMENT, GOVERNMENT RESTRICTIONS ON IMPORTS RAW MATERIALS, FAILURE OF CUSTOMERS TO PAY BILLS (YUGOSLAVIA'S LIQUIDITY CRISIS), AND WORK STOPPAGES BY LABOR. AS ONE OF LARGEST CAPITAL EQUIPMENT INDUSTRIES IN LESS- DEVELOPED REPUBLIC OF MACEDONIA, AND LARGEST SOURCE OF EMPLOYMENT IN SKOPLJE, STEEL WORKS HAS RECENTLY RECEIVED NUMBER OF SPECIAL GRANTS AND TAX EXEMPTIONS. PLANS FOR ITS TECHNICAL IMPROVEMENT, INCLUDING ONE BRITISH SURVEY MADE FEW MONTHS AGO, HAVE RECOMMENDED REPLACEMENT OR SUPPLEMENT OF ELECTRIC FURNACES WITH BLAST FURNACES.

4. AGAINST ABOVE BACKGROUND, SOVIET AGREEMENTS PROVIDE BADLY NEEDED ASSISTANCE AND, AS IN OTHER LESS- DEVELOPED YUGOSLAV REPUBLICS, BOOST FOR EMPLOYMENT. BARTER AGREEMENT WILL PERMIT IMPORT OF WORKING MATERIALS WITHOUT MAKING CASH PAYMENTS OR OBTAINING FOREIGN CREDITS WHICH NOW SHARPLY RESTRICTED UNDER GOY STABILIZATION PROGRAM. INDUSTRIAL COOPERATION AGREEMENT, WHICH CONFORMS WITH GOY PLANS TO EXPAND ECONOMIC RELATIONS WITH CEMA COUNTRIES THROUGH BILATERAL, INDUSTRY- TO- INDUSTRY CO- PRODUCTION
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AGREEMENTS, CLULD RESULT IN INCREASED OUTPUT AND TECHNICAL

ASSISTNCE. FINALLY, THIRD AGREEMENT FOR SUPPLY OF SOVIET EQUIPMENT, APPEARS TO INVOLVE CONSTRUCTION OF BLAST FURNACE AND ADDITIONAL ELECTRIC POWER STATION. THESE WILL BE FINANCED UNDER FRAMEWORK OF \$540 MILLION SOVIET DEVELOPMENT CREDIT EXTENDED TO GOY IN NOVEMBER 1972. OF 38 PROJECTS COVERED BY THIS CREDIT, TWO FOR MACEDONIA WERE IDENTIFIED AS " SKIPLJE STEEL WORKS AND THERMOELECTRIC PLANT IN SKIPLJE". WESTERN SOURCE ADVISED EMBASSY MARCH 12 THAT TOTAL VALUE OF THESE TWO PROJECTS EXPECTED TO BE BETWEEN \$75 AND \$100 MILLION, WITH BLAST FURNACE CONSTRUCTION SCHEDULED ABOUT 1976.

TOON

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